

## Message Text

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ACTION EB-07

INFO OCT-01 AF-06 ARA-10 EUR-12 ISO-00 FEA-01 AGR-10

CEA-01 CIAE-00 COME-00 DODE-00 FRB-01 H-02 INR-07

INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-02 AID-05

CIEP-02 SS-15 STR-04 TAR-01 TRSE-00 USIA-15 PRS-01

SP-02 OMB-01 IO-10 EA-10 /143 W

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P 051428Z AUG 75

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 0759

AMCONSUL RIO DE JANEIRO PRIORITY

AMCONSUL SAO PAULO PRIORITY

AMEMBASSY MEXICO PRIORITY

AMEMBASSY LONDON PRIORITY

AMEMBASSY BOGOTA PRIORITY

AMEMBASSY ABIDJAN PRIORITY

AMEMBASSY SAN SALVADOR PRIORITY

AMEMBASSY GUATEMALA CITY PRIORITY

AMEMBASSY MANAGUA PRIORITY

AMEMBASSY SAN JOSE PRIORITY

UNCLAS BRASILIA 6512

PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR, BR

SUBJECT: BRASILIAN COFFEE PRICES AND SUPPLY CONTRACTS

REF: BRASILIA 6456

1. ACCORDING TO RIO'S JORNAL DO BRASIL, IBC PRESIDENT CALAZANS ANNOUNCED ON AUGUST 1 THAT:

--IBC SUPPLY AGREEMENTS WITH FOREIGN IMPORTERS FOR THE SALE OF GREEN COFFEE WILL NOT BE RENEWED OR  
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EXTENDED. AGREEMENTS IN FORCE COVER ONLY ABOUT

200.000 SACKS, MOSTLY DESTINED FOR JAPAN AND SOCIALIST COUNTRIES.

--WE DO NOT PLAN TO ENTER INTO ANY NEW AGREEMENTS, NOR DO WE THINK THERE WILL BE ANY AGREEMENTS IN THE NEXT THREE YEARS BECAUSE OF THE COMING SCARCITY OF COFFEE.

--REPRESENTATIVES OF PRODUCER COUNTRIES HAVE BEEN INVITED TO BRAZIL TO VIEW THE DAMAGE, BUT THEY WILL NOT BE MEETING TOGETHER TO DISCUSS MARKETING QUESTIONS. (THEY ARE BEGINNING TO ARRIVE THIS WEEK, JARAMILLO AND CANTU BEING AMONG THE FIRST.)

--WE DO NOT BELIEVE THE FREEZES AND RESULTING SCARCITIES

WILL ALTER BRAZIL'S POSITIONS IN THE NEGOTIATIONS ON THE NEW COFFEE AGREEMENT. WE CONTINUE TO FAVOR A NEW ICA WHICH SPECIFIES HIGHER PRICES.

-- NEXT YEAR, WE WILL HARVEST ONLY 8 MILLION SACKS AS AGAINST 20 MILLION THIS YEAR. REDUCED BRAZILIAN EXPORTS, WE BELIEVE, WILL NOT MEAN A LOWER BRAZILIAN SHARE OF THE WORLD MARKET FOR BRAZIL.

-- EVEN IF OUR SALES FALL BY ONE-HALF, OTHER PRODUCERS WILL NOT BE ABLE TO TAKE BRAZIL'S PLACE IN THE WORLD MARKET: THEY CANNOT INCREASE THEIR CROPS SIGNIFICANTLY WITHIN FOUR YEARS AND, THEY DON'T HAVE LARGE STOCKS NOW. WHAT COULD HAPPEN IS THAT HIGH PRICES WILL STIMULATE SUBSTANTIAL PLANTING, LEADING TO OVERPRODUCTION WITHIN FOUR OR FIVE YEARS.

2. COMMENT: BRAZIL'S CARRY-OVER STOCKS OF 20.9 MILLION BAGS ARE SUFFICIENT TO CONTINUE ITS POSITION AS AN IMPORTANT COFFEE EXPORTER. CALAZANS' STATEMENT ABOUT NOT RENEWING SUPPLY CONTRACTS MEANS THAT WORLD PRICES FOR BRAZIL'S COFFEE WILL HENCEFORTH BE DETERMINED BY THE WORLD MARKET, AND NO LONGER BY THE PRICING FORMULA FOR LONG-TERM CONTRACTS BASED ON CENTRAL AMERICAN COFFEE QUOTATIONS (60 PERCENT WEIGHT IN THE FORMULA) AND AFRICAN QUOTATIONS (40 PERCENT) CRIMMINS

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